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Miyazawa Elected Prime Minister

After weathering nearly 40 years of the trials, tribulations and vicissitudes of Japanese politics, Kiichi Miyazawa, the new president of the ruling Liberal Democratic Party, finally grabbed the brass ring November 5 with his election as prime minister. Mr. Miyazawa's elevation to the government's top leadership position was expected in view of the LDP's majority in the lower house, which has the final say in the selection of the prime minister. Nevertheless, the special Diet session's action no doubt was a sweet victory for the seasoned politician as it brought to an end -- at least for the immediate future -- the intense, intraparty maneuvering for power and influence that ensued soon after outgoing Prime Minister Toshiki Kaifu announced in early October that he would not seek reelection (see JEI Report No. 39B, October 18, 1991). Mr. Miyazawa now can get on with the business of governing the country.

Many political observers question, however, whether the new prime minister, known for his political savvy and policy vision, can run his own show or

Penh to resolution of the Cambodian conflict, some government officials predict resumption of large-scale aid to Vietnam will hinge on action by the World Bank and the International Monetary Fund. Japan has directed limited aid and emergency relief to the region, granting Cambodia $1.9 million in 1989 and Vietnam $1.6 million that same year, the latest year for which data are available. This summer Tokyo announced it would provide emergency assistance worth Y15.8 million ($117,000 at Y135=$1.00) to the Cambodian Supreme National Council to assist victims of devastating floods that swept through that country in August. Now that the Cambodian peace settlement has been signed many in Japan and the international community will expect Tokyo to take a leading role in reestablishing the stability of this troubled corner of a politically and economically important region.

Margo Grimm

Japan's Deficit In Services With United States Up In 1990

In recent years some analysts have argued that Japan's advantage lies in "hardware," while the United States has a lead in "software." Certainly a number of high-profile acquisitions of U.S. companies by Japanese businesses in recent years appear to have reflected this belief, as exemplifed by the purchases of large U.S. movie studios by Sony Corp. and Matsushita Electric Industrial Co., Ltd. Statistics on bilateral trade also mirror the apparent competitiveness of each country in these two broad sectors, although only half the relationship has received wide publicity.

The U.S. trade deficit with Japan last year came to $41.7 billion on a balance of payments basis, but this figure actually measures only trade in goods (hardware). The data's software counterpart, trade in services, appears to be virtually unnoticed. As shown in the Table, the U.S. surplus in services trade with Japan came to $10.8 billion in 1990, offsetting roughly a quarter of the goods imbalance. (The table, which relies on Department of Commerce data, shows only those services that are not direct payments to labor or capital; as such it excludes interest and dividend payments, repatriated profits and wages.) Although the U.S. trade deficit with Japan shrank 16.1 percent in 1990, this country's bilateral surplus in services grew 3.4 percent. (For details of the 1989 U.S.-Japan services trade, see JEI Report No. 43B, November 9, 1990.)

As in the past, more than half the imbalance was accounted for by travel. This figure represents Japanese travelers' expenditures for food, lodging and other expenses during visits in the United States. Japanese travel expenditures in the United States increased 9.1 percent in 1990; comparable U.S. spending in Japan rose 14.9 percent, but the bilateral imbalance in this category grew as measured in dollars.

Even though travel is by far the largest services sector, it is among the least politically charged. Washington has a long list of complaints concerning Japanese trade practices, but it cannot credibly claim that Tokyo is forcing Japanese tourists to stay at home. Political fireworks have exploded, instead, around some of the other sectors. For example, data on royalties and license fees measure what sometimes is called "technical trade." Despite extensive handwringing in the United States about how Japanese firms are overtaking U.S. companies in technological sophistication, Japanese companies continue to

pay American firms far more for technology than they receive in return. (See JEI Report No. 36A, September 27, 1991 for details of Japan's worldwide technology trade.) Furthermore, this imbalance, typically measured by royalties among unaffiliated firms, grew in dollar terms in 1990. U.S. receipts as a multiple of U.S. payments declined modestly, however. (Most experts regard with

U.S. Trade in Nonfactor Services with Japan, 1990

(in millions of dollars)

	Exports	Imports	Balance
Travel	$7,694	$2,151	$5,543
Passenger Fares	2,853	439	2,414
Freight	1,022	1,986	-964
Port Services and Other Transportation	2,186	2,197	-11
Royalties and License Fees			
Among Affiliated Firms	1,702	397	1,305
Among Unaffiliated Firms	1,205	184	1,021
Private Services Among Affiliated Firms			
Among Firms with Non-U.S. Ownership	1,010	450	560
Among Firms with U.S. Ownership	354	703	-349
Business, Professional and Technical Services Among Unaffiliated Firms	829	334	495
Advertising	40	100	-60
Computer and Data Processing	165	4	161
Database and Other Information Services	53	9	44
Research, Development and Testing Services	141	D	D
Management, Consulting and Public Relations Services	15	24	-9
Legal Services	112	6	106
Construction, Engineering, Architectural and Mining Services	33	72	-39
Industrial Engineering	69	3	66
Installation, Maintenance and Repair of Equipment	137	23	114
Other	65	D	D
Other Private Services Among Unaffiliated Firms			
Education	404	15	389
Financial Services	468	650	-182
Insurance	583	156	427
Telecommunications	220	304	-84
Other	222	35	187
Total Nonfactor Services	20,752	10,001	10,751

D = suppressed to avoid disclosure of data on individual companies.

Source: Department of Commerce, Bureau of Economic Analysis

skepticism the statistics on trade among affiliated firms, such as that between a Japanese company operating in the United States and its parent, because that data may reflect corporate accounting procedures rather than actual technology flows.)

Some of the services sectors over which the noisiest disagreements arise between the United States and Japan are shown in the table to involve relatively little trade. For example, legal services has been the subject of past complaints about barriers to U.S. law firms setting up shop in Japan. As with many other business, professional and technical services, international legal services typically are performed on location using locally hired talent and resources. And these domestic transactions are not reflected in the trade statistics. On a trade basis, legal services generated only $112 million in U.S. exports in 1990, less than three days worth of Japanese car shipments to the United States. However, one quarter of worldwide U.S. exports of legal services went to Japan. (For details on foreign lawyers in Japan, see JEI Report No. 28A, July 26, 1991.)

Some experts believe that services are more likely to be traded directly in the future. For example, skilled physicians may be able to use sophisticated communications technologies to provide their services across international boundaries. Should such practices become widespread, global trade in services could explode. Services have represented a larger share of U.S. economic activity than manufacturing for decades; this sector also is a significantly larger factor in the Japanese economy than goods production. Although services trade could hold a comparable position to international trade in goods some day, the services sector currently contributes far less to the external balance. In this regard, few should be surprised that, despite America's apparent advantage in services, when both goods and services are counted the U.S. trade data with Japan still weighs heavily in Japan's favor.

Douglas Ostrom

Competition Spurs Intellectual Property Concerns

Disputes over intellectual property rights have become a common feature of U.S.-Japan trade relations; increasingly they are erupting between Japanese firms. This trend reflects several factors, including: intensifying competition between Japanese and American companies in their home markets as well as globally; the growing efforts of medium-sized American and Japanese firms to penetrate foreign markets; the critical importance of intellectual property assets in the high technology, music and arts industries; and evolving Japanese views toward intellectual property rights. At the urging of domestic interests and Washington, Tokyo gradually is moving to update and strengthen its rules on patents, trademarks, copyrights and trade secrets.

Patents - The Japanese patent system has come under heavy criticism from Washington and other foreign governments for not providing what they consider adequate protection. The two principal U.S. complaints are: Japan's "first-to-file" system is not as favorable toward inventors as the American "first-to-invent" system, and the Japanese system does not provide effective protection while a patent is being processed nor after it is granted. (For an analysis of intellectual property rights in Japan, see JEI Report No. 8A, February 24,